

## MINUTES

### **FINANCE & ECONOMIC DEVELOPMENT (TOURISM / VISITOR INDUSTRY / SMALL BUSINESS DEVELOPMENT / SPORTS & RECREATION DEVELOPMENT / OTHER ECONOMIC DEVELOPMENT AREAS) COMMITTEE**

January 9, 2013

A meeting of the Finance & Economic Development Committee of the Council of the County of Kaua'i, State of Hawai'i, was called to order by Councilmember Tim Bynum, Chair, at the Council Chambers, 4396 Rice Street, Suite 201, Līhu'e, Kaua'i, on Wednesday, January 9, 2013, at 10:45 a.m., after which the following members answered the call of the roll:

Honorable Gary L. Hooser  
Honorable Ross Kagawa  
Honorable Nadine K. Nakamura  
Honorable Mel Rapozo  
Honorable Tim Bynum  
Honorable Jay Furfaro, Ex-Officio Member

Excused: Honorable JoAnn A. Yukimura, Ex-Officio Member

Minutes of the December 12, 2012 Finance & Economic Development (Tourism / Visitor Industry / Small Business Development / Sports & Recreation Development / Other Economic Development Areas) Committee Meeting.

Upon motion duly made by Councilmember Rapozo, seconded by Councilmember Nakamura, and unanimously carried Minutes of the December 12, 2012 Finance & Economic Development (Tourism / Visitor Industry / Small Business Development / Sports & Recreation Development / Other Economic Development Areas) Committee was approved.

The Committee proceeded on its agenda item as follows:

Bill No. 2457

A BILL FOR AN ORDINANCE AMENDING CHAPTER 6, KAUAI COUNTY CODE 1987, AS AMENDED, RELATING TO GENERAL PROVISIONS RELATING TO FINANCE, ESTABLISHING A RESERVE FUND AND A RESERVE FUND POLICY [This item was deferred.]

Mr. Rapozo: Chair, can I give a short presentation? I know you want to get this thing done but I wanted to do a little quick presentation. I understand that the intent is to defer this, but I wanted to do the presentation based on the Administration asking that they want some time. I think...it is a very short presentation, probably five (5) minutes at the most.

Chair Bynum: Okay.

Mr. Rapozo: But I need time to put it together.

Chair Bynum: Let us take a brief recess.

Mr. Rapozo: I think a caption break is needed, anyhow.

Chair Bynum: Okay, fine. Let us take a caption break ten (10) minutes.

There being no objections, the meeting recessed at 10:47 a.m.

There being no objections, the meeting was called back to order at 11:05 a.m., and proceeded as follows:

There being no objections, the rules were suspended.

Mr. Rapozo: Again, I apologize for this last minute request because I did not expect it to be deferred today. We had just gotten the notice this morning from the Administration asking for a deferral. I expected some time to put this together, but really, as the Administration goes back and they...according to their request, they are working on a presentation that they believe will have an impact on the specific elements. I wanted them to see this, as well as the general public. This is kind of a snapshot of our Budget over the last four (4) years and I am hoping that they take this into account as we prepare for the upcoming Budget.

I just wanted to basically show the public that in the last four (4) years, in the "General Government" section of our Budget, which is the majority of the Budget; and this includes the Administration, Council, Finance, and a lot of the daily expenditures. In 2012, last Fiscal Year, we ended with a twenty-five percent (25%) variance. In other words, in General Government spending, General Government Accounts, we ended up with twenty-five percent (25%) more money than we spent as it relates to the Budget. In the other Departments, which is Public Safety, Public Works, Parks & Recreation; there was anywhere between three (3) to six percent (6%) variance in their End of Year Budget. In other words, they budgeted a lot more than they spent. In 2011, General Government was twenty-five percent (25%). In the other Departments...pretty similar, three (3) to six percent (6%). In 2010, you can see this here, twenty-seven percent (27%) General Government. This is a surplus. This is the Reserve. These are the moneys we had budgeted but did not spend. The other Departments, again in 2010, three (3) to twelve percent (12%). These numbers come right out of the Comprehensive Annual Financial Report (CAFR), our financial reporting documents. These are not numbers that I made up. Then in 2009, twenty-one percent (21%).

As we start to debate or discuss the Reserve Policy, I just wanted the Administration and my Colleagues to understand that this here, as far as I am concerned, this twenty-five percent (25%), twenty-five percent (25%), twenty-seven percent (27%), and twenty-one percent (21%) is already in the Budget. That Surplus, that Reserve, that Rainy Day Fund, they do not really have that. They Budget high, and they spend low. We already have an incorporated, "It is not called a Surplus, it is just called our Budget." We do not spend as much as we Budget, so there is this existing cushion in the Budget for the Administration. For the other Departments, not so much. If you look at this, and this is the easiest way because I am a visual guy, twenty-five percent (25%) right now is kind of the trend that this Council has approved in our Budgets and we could go back even further and forth about it, but I just picked the last four (4) years. We basically provide a cushion of twenty-five percent (25%) for General Government Expenses. I am not sure what

the Reserve Policy will end up, but there are some proposals of up to twenty-five percent (25%), twelve (12) to fifteen percent (15%), whatever it is. That Reserve Fund is going to be in addition to our General Government Budget. In other words, we are going to Budget with the cushion and then we are going to provide another source of funds and we call it a "Reserve Fund." In my opinion, a Reserve Fund is specifically for unexpected circumstances. It is not expected, or it is not an intended, "Oops, we did not budget properly so we need to..." No, the Reserve Fund in my opinion is a "Rainy Day Fund." It needs to be a "Rainy Day Fund." This twenty-five percent (25%) cushion that is already in existence should be moved over to the Reserve Fund. What I am saying is that we need to budget tighter, more accurate; and the moneys that after this Council dissect the Budget, whatever we believe needs to be the Reserve Fund should go into the Reserve Fund. That is going to be our Reserve Fund, whatever that percentage will be. Right now, we have duplicate cushions. You have the General Government over Budget and then you have the Reserve Fund that we are planning to implement. We have two (2) sources of revenue. All I am saying is that we take this, anticipated it, the revenue that we do not expect to spend, and that is where the Council need to be a lot more active in assessing and analyzing the Budget as submitted and we move that over to the Reserve Fund. The funds that... obviously if you look at this, we will have extra money because we are talking about two (2) sources of cushions. If in fact that this is true, then this money should go back to the taxpayers in the form of tax relief. That is how this Government should operate. But what we are doing is giving them a cushion here, set-up another cushion, and yet, the taxpayers are going to pay for it. I am having a very difficult time with that. We need to be tighter on the Council to make sure that the Budgets are more accurate. We have the trends. It is not like we cannot track the trends in the historical spending of this County. We need to cut those budgets down, take the extra money, put it in the Reserve Fund, and whatever...and at the point, we believe is additional funds, and I believe the Laws require us to do so, is return that to the taxpayers. That is what I wanted the Administration to see today as they go back and refine their presentations because I think this is a much better approach as we continue to venture into difficult financial times. That is all, Mr. Chair. I appreciate you for allowing me to do this today and allowing me the time to put it together. Thank you.

Chair Bynum: Thank you. Any questions for Councilmember Rapozo on what he has presented? Any discussion?

Mr. Hooser: Thank you for the presentation. This scenario of twenty-five percent (25%), fact if you would, in the Budget, plus the twenty-five percent (25%) of the Reserve Fund is...we want to make sure that does not happen, I think is what you pointed us to. If a Reserve Fund is established, and correct me if I am wrong, then we just have to keep an eye on the General Budget to make sure that the excess fares are minimized. I do not think I will ever be zero (0) but maybe by keeping it at a lower level than it is now. Is that correct?

Mr. Rapozo: Exactly. As you can tell in the other Departments, the three (3) to six (6)...when you budget for your Department, you obviously budget for productivity. I think that is responsible budgeting. I think the three (3) to six percent (6%); I think that is a fair amount. We did not have any Departments that went over budget. They budget relatively close to what they intend to spend and they spend what they budget. There are some funds in the General Government accounts such as the Claims and the County Attorney's Office that have a lot of money in them, in case. But what I am saying is if you transfer that money, into the Reserve...because that is what it is for. It is not to have it there available. No,

we budget...we need to budget more responsibly. We need to budget more close to what we spend. Again, the trends, the historical data tells us what these Departments are spending. We continue as a Council to approve these budgets and end up with these variances, where those variances need to be moved into the Reserve. If in fact there is an unforeseen circumstance, if there is another flood, if there is a lawsuit that in fact, we do not expect that is going to require some funding; then that comes out of the Reserve. But to allow the money to sit there year after year after year after year, I believe that is not how it should be done. I think that is what the Reserve is for and I believe that we take those variances out of the Budget and apply it into the Reserve. So we free-up that money that we had intended to put in the Reserve, and there are many options to use that money. We could return it to taxpayers. We could pay down debt. We could do more projects. That is something this Council needs to decide on collectively. I am just trying to portray a concept that we need to be tight on the Budgeting so that the variances in the Budget go where it needs to go, in my opinion, is the Reserve Fund. That, we will have to discuss for what that should be, whether it is twelve (12) to fifteen (15) to twenty (20). That discussion, again, I am not going to get into that today, but I think we just need to be tighter on the budgeting so that would freeze up the funds that we could utilize for the Reserve Account. I hope that answers your question.

Mr. Hooser: Yes, thank you.

Chair Bynum: Any other questions or discussions?

Mr. Furfaro: Yes, thank you Mr. Bynum. Thank you for your presentation, Mr. Rapozo. For those that maybe have not seen this, I would like to ask Scott to get this Reserve Presentation, not on top the board now, but to the two (2) new Councilmembers. I just want to make sure that they have it. I am going to say at the same time, if you review any General Accounting Principles in Government, you can never budget perfect. It never gets to "we spent everything in our Budget, and it is zero (0)." Those practices suggest that no one should be budgeting more than twelve percent (12%) of their Budget because if not, that is excessive and then it is very difficult to be able to take back that money. When the CAFR came out, and you folks will be seeing this correspondence tomorrow, I wrote to the Cost Control Commission. I identified ten (10) Departments from the CAFR that had the kind of percentages that Mr. Rapozo put up on the board. That will be coming to you tomorrow because I am on the schedule for the Cost Control Commission on Monday, but unfortunately, I have to travel now so my presentation is going to be made by the Staff. We have at least ten (10) Departments that budget more than twelve percent (12%). Those are the ones that I have called to the attention of the Cost Control Commission and asking them to focus to getting ourselves closer to this six (6) to twelve percent (12%) number. It was difficult in the past because we changed for in Finance for example, how we actually allocate the Employee Benefit line, the Other Post-Employee Benefits (OPEB) stuff. It is real clear now. Then, subsequently also, I want you to bring your attention to the CAFR on page 130. Please, again, I pointed out when the Auditors were here, look at the trend from 2009. We had income of about \$91 million in taxes and we are now down to \$78 million. That is part of the dilemma that I think should all be brought to our attention. I think Scott is passing some of that out now. You will get my exact correspondence that went to the Cost Control Commission. You will get it tomorrow and we recognize and ask them to look into those ten (10) Departments. I am happy to say that the Public Safety areas, Police, Fire, and Civil Defense are not on that list, as well as the Council Budget. I had more dialogue with Mr. Rapozo on this, but it is funny. It should be on the heels of what he just presented. I think the

place to start before the Budget is to get the attention of the Cost Control Commission. They are the ones that should be making some recommendations. Again, take a look at page 130 at the Auditor's Report and you will see the revenue trends. It is now worth \$78,500,000.00 versus what was just four (4) years ago, \$91,800,000.00. Thank you for letting me give some feedback and watch for your copies of what is going over to the Cost Control Commission. Thank you very much.

Mr. Kagawa: I just have some comments. Thank you, Mr. Rapozo for the presentation. One of the main reasons that I decided to run for the Council is that I was concerned where the County was spending money. A lot of you do not know...well a lot of you know that I used to work for the Council about six (6) years, back in the early '90s. From the time that I was working there until now, our General Fund spending has increased by three (3) times, approximately. With our expenses tripling, our Operating Budget...with our Operating Budget tripling, I just do not see our responsibilities that have tripled since twenty (20) years ago. I know twenty (20) years ago is a long time and there is inflation and a lot of things that we cannot control—I am not looking back at trying to correct mistakes of the past. What I am here for is to try and correct things that are coming up in the future. If we were oversized as a County in the past, it is nothing I can control. I can control what is happening up front for what is in the future and I am going to do my best to make sure that when we add positions from now on, they are justified. We cannot continue to grow at reckless rates when our economy is still recovering from the recession. That is why I appreciate Mr. Rapozo's presentation. I also know in Government, like Chair Furfaro said, it is tough to right-size budgets of Government. I worked for different sectors of the Government. I have been an auditor for large sections of Government, and I know that it is normally practiced where in the last month or last two (2) months, you have Department Heads telling their employees to spend their money to make sure that they do not have that large twenty-five percent (25%) variances. I know that is probably happening at the County level too and they are still having these big variances. You can only buy so much paperclips and staplers. It is happening already in all sectors, Federal, State, and County; where Departments are spending money because they know that the decision makers, the policy makers, like the Council and the Legislature; they are looking at the variances. Like Mr. Rapozo has pointed out and that is where they are going to cut. The bosses of these employees are telling them, "We need to spend the money. We need to bring the variances down or we are going to be subject to cuts." That is what I know is happening and what I know is past practice and I think if we right-size Government, they will not have that problem. Like Mr. Rapozo said, we have to cut those Departments with the big variances because they are already doing what I said has been going on. Thank you, Mr. Chair.

Chair Bynum: In that instance, I appreciate the presentation that Councilmember Rapozo has made. We have discussed these variances and our County traditionally has had a pretty liberal...budgets have been routinely larger than our actual expenditures. That is normal in any instance but ours has been pretty big and we have been discussing this in the last couple of years about budgeting tighter and looking at the difference between Departments who do and do not. As Mr. Rapozo points out, there are some variances that we know are going to be there. There are funds that we put into the County Attorney's Office to pay for Special Counsel, but needs to be in there, but hope to not use it every year. There are some variances that are okay because of special circumstances, but the overall premise that "we need to budget tighter," I think there is concurrence both from the Administration and the Council, that going forward, we need to do that. The

Reserve Policy—no, when we have these big variances at the end of the year, they go back into the General Fund. They do go back to the Reserve in essence. The Reserve Policy, as we go forward with this, may for the first time, put some constraints on how much they can pad the Budget. They have never had those constraints, other than what the Council allows. The Council could say, “No, we are going to cut things from the Budget to make it tighter,” but traditionally, we have not done that. This Policy; however, is going to put a ceiling on how much they can use of the Reserve, in essence, for expanding the Budget. We have never had those restrictions. That is the discussion we need to have when the whole Reserve Policy comes up. Having said that, we do have a request that came this morning just before the meeting to defer this Bill. I want to say that I have met with the County Attorney’s and Finance at least twice, two (2) or three (3) times. I have a set of amendments that I have discussed both with the Administration and Finance. I am a little disappointed that they called at the last minute because I thought we were ready to go into this dialogue today and perhaps even pass it out, but at least start the work in Committee, but this is all related to our Fiscal condition, which people have talked about and Councilmember Furfaro is passing portions of our CAFR that point out related issues like our revenues are down and those kinds of things. Over the next...between now and Budget, we are going to have a whole bunch of meetings that will get both Reserve, the Budget, and Tax Rates. We have to make financial decisions this year because of tax reformate that we passed last time that is being implemented in this year’s. We have to set the rates different. It is going to take a lot of focused attention from Councilmembers and a lot of homework because these things are complex. We need to work really collaboratively because I think a consensus there is, is that we want to be more thoughtful about how we allocate revenue decisions. We want to be more thoughtful about these variances, and I think that the Administration is moving in that same direction, maybe not as strongly as the Council would like, but that is what this whole game is about. I am disappointed that I am not going to present the Amendments that I had prepared. I am going to wait to have these meetings with the Administration that they requested. I am going to support a two (2) week deferral on this. In the meantime, the Administration is setting up meetings with the Councilmembers to present whatever it is that they want to present that is related to the Reserve Policy and Budget issues. That is a good thing. Also, I will be distributing...to anybody that does not have it, the amendments and the supporting documents that I am relying on so that people have time to be more prepared for our meeting in two (2) weeks. Are there other discussion?

Mr. Furfaro: Just in relation to the Budget and some of the particular direction that we are going in. Any Department, in my opinion, that has a variance greater than twelve percent (12%) is suspect to some discussion from the Cost Control Commission. Like I said, you will get your copies tomorrow. Also, for the intent of the schedule for the Budget, I want you to know that I finalized the proposed schedule. I sent it over to the Administration yesterday in a draft form for comments from the County Attorney, as well. I expanded some Departments to give us more time, for example, with Planning. I have got potentially a full day there, but more importantly, try to bunch them in related circumstances like for Mr. Rapozo; Police, Fire, and Civil Defense are all on the same day, things of that nature. I will get that draft to you. Also, I believe this is another notice I sent over related to the Budget. We have set-up formats that deal with being able to forecast Revenue, not just Taxes, but Building Permits and so forth. I am sorry to say that I have to send a reminder over to the Administration via Mr. Heu. We have not received our Building Permit Monthly Summary for nine (9) months. I am going to ask the Chair of the Building Committee to really stay on top of that because based

on the value of those permits, that is where we are seeing additional income for the County. These reminders will be going out but will be thoroughly part of the discussion at Budget time. Thank you, Mr. Bynum.

Upon duly motion made by Councilmember Kagawa, seconded by Councilmember Hooser, and unanimously carried, Bill No. 2457 was deferred.

There being no further business, the meeting was adjourned at 11:32 a.m.

Respectfully submitted,

  
Codie K. Yamauchi  
Council Services Assistant

APPROVED at the Committee Meeting held on January 23, 2013:

  
TIM BYNUM  
Chair, FED Committee

